

Remarks by Ambassador Thomas C. Hubbard
Association of Korean CEO's of Multinational Corporations (KCMC)

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Thank you for giving me the opportunity to speak here today. I understand this is the first annual seminar that KCMC is holding. I hope that it succeeds in starting a valuable tradition that will help Korea continue on its phenomenal path of economic development to the benefit of us all.

Today's seminar is dealing with the important topic of globalization, and how Korea and the companies active here can benefit from globalization. Certainly, Korea's economy is already a global one. In the first seven months of this year, Korea exported over 104 billion dollars worth of goods, and imported almost 101 billion dollars worth. Companies like yours invested over 9 billion dollars into Korea last year. While that number is less than in previous years, it adds on to a relatively high base. Meanwhile, Korean firms are busy investing overseas as well, with headline-grabbing moves to China, not to mention high profile investments in the United States, such as the Hyundai automotive plant recently opened in Alabama. Korean music, movies, and TV shows are hits throughout East Asia.

It has become cliché that globalization has both positive and negative aspects. The adjustments and dislocations that the forces of globalization can bring, such as the migration of uncompetitive industries, are real, and governments have the obligation to develop policies to help businesses and people adjust. But -- as those in this room know most intimately -- globalization also brings great rewards. Not only in economic terms, like lower prices and more choice for consumers and greater technological innovation, but also in social and cultural terms, with greater access to the world of ideas, art, and science. Minimizing globalization's disruptions, while maximizing its rewards, is a task for every government.

Asian philosophy often uses the metaphor of the willow tree, which can bend and sway with the storm without breaking. That metaphor is an important recognition of the fact that we are powerless to control the forces of nature, and must learn instead how to deal with them. I think we can extend this idea to globalization, as well. The forces of globalization are driven by technology, and have become embedded in the way the world's economy operates. Anti-globalization activists would have you believe that we can somehow resist, or reverse, or control globalization. They're wrong. Economies that are too rigid, too inflexible, will not withstand the wind of globalization; they will be broken by it.

The Roh Administration has launched two ambitious plans to deal with the forces of globalization: transforming Korea into the "economic hub of Northeast Asia," and achieving 20,000-dollar per-capita income by 2010. I'm sure Minister Yoon will outline the Korean government's vision in these two areas for you.

What I would like to do today is offer a few thoughts on how our friends in Korea can structure their business environment so that both foreign and domestic enterprises can thrive here, allowing Korea to fully harness the power of globalization for our mutual benefit.

Compared to most of its neighbors and economic competitors, Korea enjoys sound macroeconomic management. It recovered quickly and strongly from the 1997-98 financial crisis. The Government also tackled difficult financial reforms head on and took steps to open up the economy. This brought a marked upswing in foreign direct investment, which exceeded \$9 billion annually in 1999 and 2000.

Despite this considerable economic success, there is a growing sense of unease today among both Korean Government officials and the business community. In a way we never anticipated even 10 years ago, Korea today faces competition for export markets and investment flows from developing countries that offer lower wages and increasingly skilled workers. China, of course, is the paramount example, but Korea also faces a challenge from Thailand, Malaysia, and some of the former east bloc countries. Korean companies themselves are moving manufacturing operations to China, which explains in part why Korean exports to China surpassed those to the U.S. in 2002.

The key question is how will Korea respond to this challenge--by turning inward and attempting to preserve existing industries at all costs, or by further liberalizing its economy, removing trade and investment barriers, and opening itself more completely to the world? Our own experience, of course, argues strongly for the latter course, and many influential Koreans share our view. But it is also fair to say that other Koreans want to turn the clock back, and the Korean political system as a whole is showing troubling signs of allowing these backward-looking interests to slow progress in opening and reform.

President Roh came into office well aware of the economic challenges Korea faces, and he has outlined his vision of how to meet them. He pledged to continue structural economic reforms, an important commitment given that reforms had slowed in the latter years of the Kim Dae-Jung administration. President Roh said he would focus on critical areas including corporate restructuring, bank privatization, labor reforms, and bankruptcy law amendments.

These are important commitments, and President Roh's economic instincts are solid. But the two sides of this debate within Korea appear to be at a standoff in

recent months. We hope Korea's leaders will exercise the political will necessary to address Korea's core economic challenges.

How can the U.S. and Korea bolster our cooperation to help Korea meet its economic challenges? There are several possible options.

First of all, we support strongly Korea's idea of transforming itself into a business hub for Northeast Asia.

We applaud this concept because creating a business hub in Korea would require policy changes that would both liberalize and open up Korea's economy and create more opportunities for U.S. companies. In coordination with the Korean Government and the American Chamber of Commerce in Korea, we are organizing a conference in Seoul in December bringing together U.S. and Korean private sector and government representatives to explore the business hub idea.

Related to this, we look at the government's recent initiatives to open up Free Economic Zones with a mixture of hope and caution. Hope, because this could be an important stepping stone to making Korea's business environment more open, liberal, and responsive to economic needs. Caution, because our firm view is that the truly proper course is to turn all of Korea into a "free economic zone", and we worry that the regulatory changes proposed for these zones will remain limited to them -- that they will become "free-market ghettos" that do not act to change the environment in the country as a whole.

Frankly speaking, Korea's neighbors in Northeast Asia are not going to allow it to develop into *the* business hub of the region without a fight. If Korea wants to succeed as a regional hub, it needs to offer a predictable and stable business environment with a transparent regulatory process, more open markets, improved corporate governance, reduced government interference in the market, and better protection of intellectual property rights. It also needs to allow firms more flexibility in the hiring and firing of workers, and needs to seek more constructive relations between management and workers generally. These are problems that cut across economic sectors and discourage potential investors.

In one form or another, these issues have been on our bilateral agenda for years. They underlie current U.S.-Korean trade irritants related to telecommunications, pharmaceuticals, agriculture, and automobiles. For example, U.S. companies have complained about intrusive government influence in setting technology standards -- standards that benefit local technology and discriminate unfairly against foreign companies.

This is a very important point, because it gets to the heart of creating an environment that meets the challenge of globalization. Relying on parochial standards -- valid only in Korea -- in order to protect Korean industries will only mean that investors pass Korea by and locate in places that use global

standards. It does not help Korean companies either, who have to duplicate efforts in order to develop products that meet the local standard, on one hand, and international standards on the other. The market should decide which standards and technologies succeed, and we firmly oppose the adoption of single, mandatory technical standards.

There have also been problems resulting from a lack of regulatory transparency in the pricing and reimbursement guidelines for pharmaceuticals. Korea has made a lot of progress in improving the transparency of government decision-making. But there is still work to do in order to provide firms -- both foreign and domestic -- with the kind of predictability and confidence in the fairness of the system they need in order to plan and market properly.

High agricultural and automobile tariffs continue to be an issue, and we believe they are an anachronism at a time when Korea has a world-class automotive industry and the developing countries of the world desperately need tariff relief for their agricultural products in order to reap the benefits of globalization that our countries already enjoy.

U.S. firms have also expressed concerns about insufficient protection and enforcement of intellectual property rights. We have seen some progress in recent months and hope it will continue. As a middle-income country aspiring to compete with developed nations, Korea needs to raise its rate of technological innovation, which in turn requires strengthened intellectual property protection and enforcement.

In addition to moving forward with the business hub idea, there are other steps Korea could take to meet its economic challenges.

One option would be resuming discussions on a U.S.-Korea Bilateral Investment Treaty. Concluding a treaty would be a clear sign that Korea is open for business, and would give the country a competitive edge over many of its rivals. We hope the screen quota issue can be resolved and that the Korean government will show that it is serious and prepared to resume negotiations. The U.S. welcomes the recent statement by President Roh that the Korean Government will "exert its utmost efforts" to persuade those who oppose reducing the screen quota.

Another option would be for Korea to announce and implement a bold and forward-looking trade liberalization policy, beginning in the WTO. Korea helped get the Doha Development Round off to a productive start, but the Korean delegation showed less flexibility at Cancun. This is likely in response to pressure from Korea's strong farm lobby, which also appears to be blocking National Assembly consideration of the free trade agreement Korea negotiated with Chile. Korea is a major trading nation, and if the Korean Government took a

leadership role in moving the Doha Development round forward, businesses would definitely take notice.

By the same token, intensifying Korea's efforts to negotiate bilateral FTA's, particularly in Northeast Asia, would give businesses confidence that Korea will keep its economy heading in the direction of greater opening. On this front, we took note of the announcement in Bangkok that Korea and Japan plan to negotiate a bilateral FTA within two years, and that Korea and Singapore hope to finish their FTA negotiations within one year. We wish them luck, and hope and expect that they will conclude good, comprehensive FTAs. South Korea is also working to improve trilateral economic, environment and science cooperation with Japan and China. We encourage such regional cooperation and do not see it as a threat to the U.S.-Korea economic relationship. To the contrary, we believe that strong economic ties between South Korea and its neighbors, based on cooperation between free market economies, would be to the benefit of all those active in the global economy.

Finally, Korea will host the APEC Ministerial and Leaders meetings in 2005. APEC is the preeminent economic forum in the Asia-Pacific Region, and Korea could use its chairmanship to push vigorously for trade and investment liberalization. Korea is already contributing constructively within APEC, for example by sponsoring a creative transparency initiative. We hope Korea will also support an APEC regional air transport agreement, an idea that seems consistent with Korea's hub aspirations. We look forward to working closely with Korea during its chairmanship.

Like the willow that bends with the wind, but remains firmly rooted, making these changes does not mean that Korea is giving up its essence, or its cultural uniqueness, as some anti-globalization critics might claim. Creating a business and economic environment where multinational corporations like yours can thrive will also enable Korea as a whole to prosper in the new economic realities of the 21st Century. Such a strategy will not "sell out" Korea, but allow it to compete effectively, thereby extending the reach of its culture and its people.

Thank you very much.